Chapter 3: Policies on SME Development

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Policies on SME Development

Formulating sound policies and initiatives to unleash the growth potential of SMEs and translating these aspirations into an effective plan of action has been fundamental not only in charting out the success, but more importantly in ensuring the sustainability and competitiveness of Malaysian SMEs. Recognising the important role of SMEs in the economy, the Government is committed towards creating the foundation to support and nurture the development of SMEs into becoming the main growth engine for the country.
Over the period 2005 - 2010, NSDC has introduced various initiatives through the SME Development Framework which coordinates the policies and programmes across more than 15 Ministries and 60 Agencies.

The National SME Development Council (NSDC) established in 2004 underlines the Government’s commitment in promoting the development of SMEs in Malaysia through a comprehensive and coordinated approach. The NSDC, which is chaired by the Prime Minister with members comprising Ministers and Heads of key Government Agencies involved in SME development, has been entrusted to formulate broad policies and strategies, and to oversee coordination of programmes to enhance the effectiveness of these programmes.

Over the period 2005 - 2010, NSDC has introduced various initiatives through the SME Development Framework which coordinates the policies and programmes across more than 15 Ministries and 60 Agencies. Among the key initiatives of NSDC include:

- Adoption of a standard SME definition nationwide;
- Introduction of an annual plan called the National SME Development Blueprint which was subsequently renamed as the SME Integrated Plan of Action (SMEIPA). The Plan identifies the key programmes for SME development based on the three strategic thrusts, namely strengthening the enabling infrastructure; building capacity and capability; and enhancing access to financing;
- Development of a comprehensive database to track progress of SMEs;
- Projections of macro performance targets of SMEs for year 2010;
• Establishment of a dedicated agency for SMEs which was realised through the transformation of the Small and Medium Industries Development Corporation (SMIDEC) into SME Corporation Malaysia (SME Corp. Malaysia) as the Central Coordinating Agency to streamline, coordinate, monitor, and assess all SME development initiatives; and

• Adoption of the new Terms of Reference of NSDC, which include SME Corp. Malaysia as the Secretariat of the Council and wider representation with members from Sabah and Sarawak (Ministry of Industrial Development Sabah and Sarawak respectively) and to co-opt the private sector as and when required.

At the 10th NSDC Meeting held in February 2010, the Council noted that the policy initiatives introduced by NSDC have yielded positive results and was the key contributory factor for the higher growth trajectory of SMEs in the period 2006 - 2008. The Council also endorsed several key initiatives to strengthen the competitiveness and resilience of SMEs, with greater emphasis towards the development of SMEs in the services sector. These include:

• The formulation of an SME Masterplan (2011 – 2020) to elevate the role of SME as the key source of endogenous growth in the New Economic Model;

• The adoption of an outcome-based approach in SME development initiatives; and

• The establishment of a special unit responsible for the development of SMEs at the relevant Ministries and Agencies using existing resources to enhance the effectiveness in coordinating and monitoring of SME development initiatives.

The Council also encouraged all Ministries and Agencies involved in SME development to adopt the SME Competitive Rating for Enhancement (SCORE) to monitor SMEs under their programmes.

SME Development Policies

Specific policy aspirations on SME development at a national level was documented in the Third Industrial Master Plan (IMP3) and the Ninth Malaysia Plan (9MP). The focus was to foster an enabling environment, entrepreneurship development, inter-firm linkages with large establishments as well as IT adoption and innovation.

Following the success of policy intervention on performance of SMEs, SME development has been elevated to the next level, with the shift of policy thrusts towards more outcome-based approach to maximise the returns from efficient allocation of resources. Towards this end, each policy initiative is assessed critically on its merits based on the size of funds allocated and the expected economic and social payoffs. The assessment on SME development is currently comprehensive evaluated at three levels:

• Macro level – assessment of macroeconomic indicators such as Gross Domestic Product (GDP), employment and exports;

• Programme level – assessment on effectiveness of Government programmes through the Impact Analysis Framework on SME Programmes (IAFSP); and

• Firm level – assessment on competitiveness of SMEs at firm level using SCORE.
SME Integrated Plan of Action (SMEIPA)

At the programme level, the initiative involves three core processes, namely planning, implementation and monitoring. All programmes are planned one year ahead and are documented in SMEIPA which is implemented focusing on the three strategic thrusts, namely strengthening the enabling infrastructure; building capacity and capability; and enhancing access to financing for SMEs. Over the years 2006 - 2009, the initiatives have shown considerable success in streamlining the programmes and in reducing duplications and at the same time achieved via enhancing outreach to greater number of recipients.

Within the monitoring process, the assessment has begun to move towards an outcome-based approach using IAFSP. To implement the IAFSP framework, SME Corp. Malaysia conducted a series of workshops with the Ministries and Agencies and to further enhance coordination and monitoring of programmes, SME Corp. Malaysia also established a working committee comprising the relevant Ministries and Agencies which meets once a month.

Achievements of Key SME Development Programmes in 2009

In 2009, a total of 162 key programmes were implemented with a financial commitment of RM3.05 billion which benefited 603,173 SMEs across all sectors. Although the amount spent for these programmes was somewhat similar to the RM3 billion spent in 2008, the impact was higher with more SMEs benefiting from the programmes. As with the previous years, capacity and capability building programmes continued to form bulk of the programmes (73%) in 2009, followed by programmes for strengthening enabling infrastructure (14%) and enhancing access to financing (13%).

Table 3.1
SME Development Programmes by Strategic Thrusts

<table>
<thead>
<tr>
<th>Strategic Thrusts</th>
<th>Programmes</th>
<th>SME Benefited</th>
<th>RM (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening Enabling Infrastructure</td>
<td>22</td>
<td>278,246</td>
<td>70.5</td>
</tr>
<tr>
<td>Building Capacity and Capability</td>
<td>119</td>
<td>290,239</td>
<td>803.8</td>
</tr>
<tr>
<td>Enhancing Access to Financing</td>
<td>21</td>
<td>35,688</td>
<td>2,175.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>162</strong></td>
<td><strong>603,173</strong></td>
<td><strong>3,049.8</strong></td>
</tr>
</tbody>
</table>

Source: SME Corporation Malaysia
Building Capacity and Capability

A total of 119 programmes for capacity and capability were implemented in 2009 with the financial expenditure of RM304 million benefiting 280,200 SMEs. Out of these:

- About 38% (45 programmes) were implemented for entrepreneurship development amounting to RM308 million and benefiting 91,500 SMEs;

- About 27% (32 programmes) were implemented for human capital development amounting to RM124 million, benefiting 176,500 SMEs; and

- About 15% (18 programmes) were implemented to support SMEs in marketing and promoting their products and services with financial expenditure amounting to RM236 million, benefiting 17,400 SMEs.

Three new programmes were also introduced in 2009, all of which were undertaken by the Ministry of Plantation Industries and Commodities (MPIC) involving a total financial commitment of RM0.11 million. These include the Entrepreneur Development Programme by the National Kenaf and Tobacco Board (LKT), Palm Oil Nursery Entrepreneur Development by the Malaysian Palm Oil Board (MPOB) and Professional Management Development (PMD) Programme by the Malaysian Timber Industry Board (MTIB).

Enhancing Access to Financing

Meanwhile, the largest share of the allocation amounting to RM2.2 billion was devoted to enhancing access to financing for SMEs channelled through 21 programmes which benefited 35,700 SMEs. About 81% (17 programmes) were for working capital facilities with total expenditure of RM1.6 billion, benefiting 8,800 SMEs. The programmes include:

- Five SME special funds under Bank Negara Malaysia (BNM) which are channelled through participating financial institutions;

- Microfinance schemes such as Micro Enterprise Fund (MEF) by BNM, AgroBank (Pinjaman Mikro ESP-i), Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) and Amanah Ikhtiar Malaysia (AIM);

- Soft Loan for SMEs by the Ministry of International Trade and Industry (MITI) through SME Corp. Malaysia; and

- Schemes and PROSPER Schemes by Perbadanan Usahawan Nasional Berhad (PUNB).

Strengthening Enabling Infrastructure

Towards strengthening the enabling infrastructure for SME development, a total of 22 programmes were implemented in 2009 with financial expenditure of RM70.5 million which benefited 278,200 SMEs. More than half of the programmes were meant for developing and upgrading SMEs’ access to business premises and business centres with total expenditure of RM63 million. These among others include:

- Business Premises/Workshop/ Factories Infrastructure Programme by Ministry of Rural and Regional Development (MRRD); and

- Upgrading of amenities and relevant infrastructure in villages by Ministry of Tourism (MOTOUR).

Based on the objectives of the programmes, out of the 162 programmes implemented in 2009, the bulk (94 programmes at RM590 million) was to enhance viability of SMEs benefiting 404,732 SMEs. The remaining 46 were devoted to enhancing the participation of Bumiputera entrepreneurs (benefiting 62,100 SMEs) and 22 more programmes focused on building K-based industries which benefited 136,300 SMEs.
Programmes in 2010

A total of 267 programmes with financial commitment of RM6.9 billion are being implemented in 2010. The increase is due to a more comprehensive approach taken by SME Corp. Malaysia in monitoring SME development programmes which include funds as well as programmes by additional Ministries and Agencies such as the Ministry of Industrial Development (MID) Sabah, MID Sarawak, Ministry of Women, Family and Community Development (MWFCID) and the Federal Land Development Authority (FELDA). Majority of the programmes (75%) are meant for capacity and capability building, followed by programmes for enhancing access to financing (15%) and strengthening enabling infrastructure (10%). In terms of the objectives:

- 151 programmes (57%) with a financial commitment of RM4.2 billion are targeted at enhancing viability of SMEs across all sectors;

- 102 programmes (38%) with a total of RM1.8 billion is aimed to promote Bumiputera participation in the SME sector; and

- 14 programmes (5%) with RM1.1 billion allocation are for promoting the development of K-based SMEs.

Building Capacity and Capability

Capacity and capability building continues to be the focus of SME development programmes in 2010, whereby a total of 200 programmes with a financial allocation of RM786 million has been committed for this purpose. These programmes are expected to benefit a total of 272,500 SMEs, particularly in the areas of entrepreneurship development, human capital development, marketing and promotion, as well as product development. Among the major outcomes expected from these programmes include:

- Retraining and Skills Upgrading programme by Pembangunan Sumber Manusia Berhad (PSMB) which will reach out to 99,000 participants;

- The Short-Term and Part-Time Courses by MOHR which is expected to benefit 45,100 participants;

- The Entrepreneur Training Programme implemented by MRRD through MARA to provide exposure, awareness and encouragement to some 25,700 Bumiputera entrepreneurs to undertake entrepreneurship as a career;

- The Halal Training Programme by MITI through Halal Industry Development Corporation (HDC) to increase awareness on halal which will reach out to more than 10,000 participants from SMEs in the manufacturing and services sector; and

- The Jejari Bestari programme by MWFCID which is intended to improve the economic status of 6,700 women in the rural areas.
Enhancing Access to Financing

The Government has also allocated a sum of RM5.9 billion for 39 programmes earmarked to enhance access to financing to SMEs. The programmes are expected to benefit a total of 283,100 SMEs. Almost 85% of the programmes are aimed at providing financing for working capital purpose and for SMEs to undertake business expansion activities. These include seven new schemes established to assist SMEs which include:

- Ar-Rahnu Micro Programme by the Ministry of Finance (MOF) through Yayasan Pembangunan Ekonomi Islam (YaPEIM);
- Creative Industry Fund by MOF through Bank Simpanan Nasional (BSN);
- Skim Insentif Usahawan FELDA by the Prime Minister’s Department through the Federal Land Development Authority (FELDA); and
- Green Technology Financing Scheme by Ministry of Energy, Green Technology and Water (MEGTW) to promote the green technology industry.

Strengthening Enabling Infrastructure

A total of 28 programmes with a financial commitment of RM193 million has been allocated to further strengthen the enabling infrastructure for SMEs. Out of these, 24 programmes (86%) are aimed towards providing physical infrastructure for SMEs which includes programmes to develop, upgrade and/or improve SMEs' access to business premises, business centres, industrial lots and halal parks. Among the key programmes for 2010 include:

- Provision of Business Premises by Ministry of Regional and Rural Development (MRRD) through the Department of Orang Asli Affairs (JHEOA) that will benefit 1,200 participants;
- Provision of Business Premises programme by MRRD in collaboration with MARA to provide 526 business premises at affordable rental rates;
- Factory Assistance Scheme (Skim Kilang SME Bank) by the Ministry of International Trade and Industry (MITI) through SME Bank to establish 422 factory premises for Bumiputera entrepreneurs in strategic locations; and
- Sandakan Industrial Estate, Phase III – SME Zone by the Ministry of Industrial Development (MID) Sabah to develop organised industrial facilities for SMEs in the Sandakan Industrial Estate.
Way Forward

New Policies and the Impact on SMEs

As SMEs form the backbone of the Malaysian economy, it is vital to ensure that SME development policies are aligned to the nation’s agenda. Over the years, the policies on SME development were mainly based upon the IMP3 and 9MP. Going forward, the introduction of new policies by the Government, namely the New Economic Model (NEM) and the Tenth Malaysia Plan (10MP) would require some realignment and adjustment of SME development policies and initiatives in Malaysia to be in line with the long-term aspirations to achieve a high income nation with developed status by 2020. In this context, two key issues have become relevant to SME development. First, would be to create a number of strong homegrown companies that can compete in the international market to become regional and global champions. Second is to focus on the bottom 40% of the income group that earn RM1,500 and below, which mainly comprises self-employed micro enterprises to upgrade their activities and to elevate their income levels. The SME Masterplan (2011 - 2020) is currently being drafted to ensure a holistic approach in charting out the future direction of SMEs in Malaysia with the aim towards increasing the contribution of SMEs to the economy.

Role of SMEs in the New Economic Model

The New Economic Model unveiled on 30 March 2010 consists of a raft of economic measures that would propel Malaysia into becoming a fully developed nation by year 2020, based on the three guiding principles; high income, sustainability and inclusiveness.

Given the fact that SMEs represent 99% of total business establishments in the country, SMEs are destined to play a significant role in building the nation’s economy under the New Economic Model. The push towards transforming Malaysia into a high-income and knowledge-based economy necessitates that SMEs embrace greater knowledge, innovation, technology and creativity, which are important elements that will help to drive greater productivity, efficiency, competitiveness and profitability.

To achieve this aspiration, SME development policies and initiatives will need to be re-aligned to reflect the eight strategic reform initiatives outlined in the New Economic Model as follows:
Chart 3.1
Strategies under the New Economic Model: Measures Related to SMEs

SRI 1: Re-energising the Private Sector
- Promote SME growth in innovative and technologically advanced areas
- Remove barriers and costs to doing business
- Facilitate timely access to funding
- More support and assistance for SMEs, especially micro enterprises
- Creating regional champions
- Creating ecosystem for entrepreneurship and innovation

SRI 2: Developing a Quality Workforce and Reducing Dependency on Foreign Labour
- Upgrading of skills through education and training
- Establish a labour safety-net for displaced workers
- Formalise international quality standards and certification of skills
- Reduce dependency on foreign labour through levy system

SRI 3: Creating a Competitive Domestic Economy
- Building entrepreneurship through initiatives to support micro enterprises and start-ups
- Remove market distortions through phasing out of price controls and subsidies
- Social safety net for bottom 40% of households and Transformation Fund for distressed firms

SRI 4: Strengthening the Public Sector
- Enhance delivery of Government services
- Social safety net for bottom 40% of households and Transformation Fund for distressed firms
- Use results-based budgeting and strengthen public finance management i.e. implementation of Goods and Services Tax (GST)

SRI 5: Transparent and Market-friendly Affirmative Action
- Reduce income disparity by focusing on bottom 40% of households and business owners
- Promote equal and fair access to business opportunities including setting up of Equal Opportunities Commission
- Social safety net for bottom 40% of households and Transformation Fund for distressed firms

SRI 6: Building the Knowledge Base Infrastructure
- Create an ecosystem for entrepreneurship through easing of entry and exit of firms as well as revamping seed and venture capital funds for budding entrepreneurs
- Promote environment for innovation through incentives, funding and establishment of innovation enabling institutions
- E&E - focus on new niche areas i.e. R&D and design
- Agriculture - high value activities i.e. large scale, high yields and new technologies
- Services - promote new areas i.e. tourism (medical tourism, edu-tourism, eco-tourism), Islamic finance, green technology, biotechnology and creative industries
- Support innovative SMEs by changing credit assessment from conventional lending to partial guarantees

SRI 7: Enhancing the Sources of Growth
- Support green technology investment through venture capital funds
- Credit assessment by banks for "green investment" using non-collateral based criteria

SRI 8: Ensuring Sustainability of Growth
SMEs must be able to accept changes, challenge conventional thinking and employ new methodologies and processes to meet with the increasing challenges not only domestically but internationally.

The success of this transformation will also depend largely on human capital development and knowledge enrichment, which are imperative if local SMEs are to adopt new processes and methods to achieve higher productivity, efficiency and cost effectiveness. These are fundamental pre-requisites to ensure the continued success, competitiveness and sustainability of doing business in the modern era. The enriched skills would help to position Malaysian SMEs to offer high value-added expertise and services.

Moving forward, SMEs must be firmly committed to supporting the nation's drive towards becoming a high-income nation. SMEs must be able to accept changes, challenge conventional thinking, and employ new methodologies and processes to meet with the increasing challenges not only domestically but internationally. In becoming a catalyst and the main driver of the Malaysian economy, local SMEs must not only focus on reaffirming their position in the domestic front to safeguard their prospects in a more liberalised economic landscape, but at the same time must be equally willing to seek out new business opportunities abroad. To be able to do this, SMEs must benchmark themselves against international competitors and willing to embrace best practices, equip themselves with the necessary skills and technical expertise, and explore new technology to be able to subscribe and adhere to globally-accepted standards.

SMEs are also urged to take full advantage of the various Government initiatives to develop their capacity and capabilities in order to enhance their presence domestically and abroad. In essence, SMEs that adopt a holistic approach by way of addressing all key parameters of growth from access to financing and funding, to capacity building and finding new markets, will be better positioned for continued success.
The New Economic Model

The New Economic Model (NEM) is based on the three guiding principles of high income, inclusiveness and sustainability. The high income principle aims to achieve a quantum leap in per capita income from the existing USD7,000 to USD15,000 – 20,000 by 2020, while sustainability refers to meeting present needs without compromising on the future generation. Ensuring that all communities are able to fully benefit from the wealth of the country is covered under the third principle which is inclusiveness.

The recent global financial crisis has created a new global economic environment. Moving forward, recovering from the crisis, Malaysia’s economic growth can no longer rely solely on a few key sectors, but will have to be complemented by new strategic industries in which the country has comparative advantage. In the next few months, the National Economic Action Council will focus on developing strategies and action plans for the 12 National Key Economic Areas (NKEAs) that have potential to generate high income.

This transformation process and shift towards a knowledge-driven economy demands high productivity being achieved through the use of skills and innovation, improved coordination, stronger branding and compliance with international standards and intellectual property rights. Emphasis will be on new technology, innovation and creativity. To achieve this transformation, the NEM has outlined a series of eight strategic reform initiatives that will be integrated into the Tenth and Eleventh Malaysia Plans:

- Re-energising the private sector to lead growth;
- Developing a quality workforce and reducing dependency on foreign labour;
- Creating a competitive domestic economy;
- Strengthening the public sector;
- Putting in place transparent and market-friendly affirmative action;
- Building knowledge base infrastructure;
- Enhancing the sources of growth;
- Ensuring sustainability of growth.

This important shift to a knowledge-based economy is also designed to bring Malaysia out of the “middle-income” trap, and to enable the country to benefit from greater prosperity in the new global economy. Creating high-income jobs will result in growth in productivity and competitiveness and ultimately help towards eradicating poverty, but this will depend greatly on building quality and highly-skilled workforce that will reduce dependency on unskilled foreign labour. Overall, Malaysia’s economic transformation is envisioned to promote growth, productivity and global competitiveness of Malaysian companies across all sectors.
SMEs under the Tenth Malaysia Plan (2011 - 2015)

The strategies under the New Economic Model are embodied in the Tenth Malaysia Plan (10MP). Despite the challenges faced by SMEs during the 9MP period (2006 - 2010), value added of SMEs grew at a faster pace than the overall economic growth, resulting in the increase in SME contribution to GDP from 29% in 2005 to 31.2% in 2009. Under the 10MP, the Government is committed to further unlock the growth potential of SMEs to create domestic players that can eventually become regional and global champions. Towards this end, specific series of action will be introduced:

Chart 3.2
Strategies under the Tenth Malaysia Plan

**Achieving NEM: High income and high-productivity economy**

**Developing SMEs as the Engine of Growth and Innovation**

Support SMEs at early stage and those that have potential to become global players

**Access to Financing**
- RM3 bil for working Capital Guarantee Scheme of which half for Bumiputera entrepreneurs
- RM500 mil Mudharabah Innovation Fund
- Increase financial resources of SME Bank and Agro Bank
- Adequate financial allocation to SME Corp. Malaysia
- AIM and TEKUN micro-credit facilities for estate workers

**Green Lane for Procurement**
- For SMEs that have penetrated international markets, obtained recognition in terms of quality and innovation

**Skills Upgrading**
- Expand the scope of the HRDF and SME Corp. Malaysia grants
- Skills training for school drop-outs
- Enhancement of technical education and vocational training
- RM500 million for Skills Development Fund Corporation

**Bumiputera Development Agenda: New Approach**
- Areas of equity and property ownership, skills and entrepreneurship
- Establishment of a high-level Council

**Social Justice Policy**
- Raise the income and quality of life of the bottom 40% household
- Reduce price controls and subsidies in stages

**Labour Market Efficiency**
- Establishment of Talent Corporation
- Streamline foreign worker employment policy
The Tenth Malaysia Plan

Formulated based on the aspiration of the New Economic Model (NEM) to achieve high income and high productivity economy, the Tenth Malaysia Plan (10MP) aims to achieve growth of 6% per annum (9MP: 4.2%). The Plan also targets to increase the Gross National Income (GNI) per capita from RM26,420 in 2010 to RM38,859 by 2015, while the fiscal deficit to Gross Domestic Product (GDP) ratio to be reduced from 5.3% in 2010 to less than 3% at the end of the plan period. During the period, growth will be mainly led by the private sector, particularly private investment increasing at an average annual growth rate of 12.8%. On the supply side, the services sector will continue to be the key growth driver of the economy.

### 10 IDEAS OF THE 10MP

1. Internally driven, externally aware
2. Leveraging on our diversity internationally
3. Transforming to a high-income nation through specialisation
4. Unleashing productivity-led growth and innovation
5. Nurturing, attracting and retaining top talent
6. Ensuring equality of opportunities and safeguarding the vulnerable
7. Concentrated growth, inclusive development
8. Supporting effective and smart partnerships
9. Valuing our environmental endowments
10. Government as a competitive corporation

The 10MP will also focus on the 12 National Key Economic Areas (NKEAs) identified under the NEM. For this purpose, an Economic Transformation Unit will be established to plan and coordinate the implementation and development of the NKEAs.

SME Masterplan (2011-2020)

The Masterplan was one of the major outcomes of the 10th NSDC Meeting which aims to elevate the role of SME as the key source of endogenous growth in the economy. The Masterplan would propose bold measures for SMEs to make a quantum leap in GDP growth and for Malaysia to produce domestic, regional and global champions that can spearhead the growth in the economy.